

TRANSPORTATION

Governor Proposes Significant General Fund Saving from Transportation

The Governor proposes to retain gasoline sales tax revenue of approximately \$1.53 billion in the General Fund instead of transferring these funds to transportation. This revenue would otherwise support transportation through a \$216 million Public Transportation Account “spillover” transfer and a \$1.31 billion Proposition 42 transfer. Additionally, the Governor proposes to reschedule past transportation loans due by June 30, 2009, over a 15-year period ending in 2021-22. These proposals would delay highway and mass-transit projects in the Traffic Congestion Relief Program, the State Transportation Improvement Program, and delay improvements to local streets and roads. The Governor proposes an amendment to the Constitution to prohibit the suspension of Proposition 42 after 2006-07.

Background on Proposition 42 and Past Transportation Loans

- **Origin of the Traffic Congestion Relief Program and Proposition 42.**

- The Traffic Congestion Relief Program (TCRP) was established with the 2000-01 budget (AB 2928, Torlakson) as a six-year funding program – with \$2 billion transferred from the General Fund to the Traffic Congestion Relief Fund in 2000-01 and gasoline sales tax revenue of approximately \$1.1 billion transferred annually in 2001-02 through 2005-06 from the General Fund. The program did not increase taxes, but rather used existing General Fund revenue. Program revenue is statutorily distributed as follows:
 - \$4.9 billion for 141 specified transportation projects.
 - \$400 million to cities and counties for local streets and roads.
 - \$5 million to the High Speed Rail Authority.
 - The remainder (about \$2 billion) is proportionally allocated, with 40 percent for State Transportation Improvement Program projects, 40 percent for local streets and roads, and 20 percent for public transportation.
- General Fund revenues for the 2001-02 budget were below the level anticipated at the time of AB 2928, and as part of the enacted 2001-02 budget, implementation of the annual gasoline sales tax transfers to the TCRP was delayed two years – to 2003-04. As part of the budget agreement, a proposition was submitted to voters which placed the program in the Constitution and made permanent the use of gasoline sales tax revenue for transportation. Voters approved Proposition 42, which also contained a provision that allows the Legislature to suspend the funding with a two-thirds vote.

- **Traffic Congestion Relief Fund loans to the General Fund and Proposition 42 suspensions.**
 - The 2001 Budget Act, the 2002 Budget Act, and legislation enacting the 2002-03 mid-year budget revision, loaned a total of \$1.38 billion from the Traffic Congestion Relief Fund to the General Fund with repayment due in 2005-06.
 - The 2003 Budget Act partially suspended the 2003-04 Proposition 42 transfer with \$289 million transferred and \$868 million suspended. Repayment of the suspended amount is statutorily required in 2008-09. This funding level allowed projects with current allocations to continue work, but was not sufficient to allow new project allocations.
 - The 2004 Budget Act fully suspended the 2004-05 Proposition 42 transfer of \$1.243 billion with repayment statutorily required in 2007-08. However, the budget includes several mechanisms for early repayment of the \$1.38 billion loan due in 2005-06: a \$43 million General Fund transfer; a \$140 million transfer of “spillover” gasoline sales tax money that would otherwise go to the Public Transportation Account; and \$1.2 billion from tribal gaming bonds.
- **Intra-transportation loans.** Several loans have been made from the State Highway Account and the Public Transportation Account to backfill other transportation funds for the delayed implementation of the TCRP and the loans from the Traffic Congestion Relief Fund to the General Fund. These funds have stayed within transportation; however, they have shifted funds that would otherwise be available for highway capacity projects to TCRP projects (highway expenditures comprise 35 percent of expenditures for TCRP projects) and to local streets and roads projects.
 - As part of the 2001-02 refinancing of the TCRP, the State Highway Account transferred \$143 million in 2001-02 and \$150 million in 2002-03 to cities and counties, which represented the same amount expected if the sales tax on gasoline was transferred in those years. To repay the State for this loan, cities and counties forgo their 2006-07 and 2007-08 gasoline sales tax money (Prop 42 transfer) and this funding goes instead to the State Transportation Improvement Program.
 - Also as part of the 2001-02 refinancing of the TCRP, the State Highway Account financed capital outlay support for TCRP projects totaling \$89 million over 2000-01 through 2002-03, with repayment due in 2006-07. The tribal gaming bonds that are part of the 2004 budget repay this loan.
 - The 2002 Budget Act included a \$474 million loan from the State Highway Account to the Traffic Congestion Relief Fund. The 2003 Budget Act repaid \$100 million, the 2004 Budget Act repays \$20 million, and the tribal gaming bonds repay the remainder.
 - The 2001 Budget Act and 2002 Budget Act included loans totaling \$275 million from the Public Transportation Account to the Traffic Congestion Relief Fund, with repayment due in 2007-08. If the tribal gaming bonds meet the \$1.2 billion revenue target, these loans will be fully repaid.

Governor's Budget Proposals for Proposition 42

- **Suspension of the 2005-06 Proposition 42 transfer.** The Governor proposes to suspend the Proposition 42 transfer of \$1.31 billion in gasoline sales tax revenues from the General Fund to transportation. The Administration proposes to repay the \$1.31 billion over a 15-year period ending in 2021-22. If Proposition 42 is not suspended, the funding would be allocated in 2005-06 as follows.
 - \$678 million for the Traffic Congestion Relief Program (TCRP).
 - \$253 million for the State Transportation Improvement Program (STIP).
 - \$253 million for local streets and roads.
 - \$126 million to the Public Transportation Account (PTA).
- **Constitutional amendment to Prohibit 42 suspensions after 2006-07.** The Governor proposes to amend the Constitution to prohibit suspension of Proposition 42 after 2006-07, and prohibit any loans from the State Highway Account and Public Transportation Account to the General Fund.
- **Delayed repayment of 2003-04 and 2004-05 Proposition 42 loans.** The Governor proposes that \$2.1 billion in past Proposition 42 loans, which are currently due by June 30, 2009, be repaid over a 15-year period ending in 2021-22. Language requiring repayment by 2021-22 would be included in the proposed constitutional amendment. The language would specify that repayment in each fiscal year shall not be less than one-fifteenth (1/15th) of the total amount due.
- **Proposition 42 in 2006-07.** The budget does not speak to the suspension of Proposition 42 in 2006-07; however, the Administration proposes to “firewall” Proposition 42 starting in 2007-08 and does not rule-out a suspension proposal for next-year’s budget.

Tribal Gaming Bonds. The Governor’s Budget assumes \$1.2 billion in tribal gaming bonds will successfully be sold in 2005-06, instead of in 2004-05 as assumed at the time of the 2004 Budget Act. If successfully sold, the bonds would fully repay loans made from the Traffic Congestion Relief Fund to the General Fund, and associated loans from the State Highway Account and the Public Transportation Account to the Traffic Congestion Relief Fund. Statute requires General Fund repayment of the Traffic Congestion Relief Fund loan by June 30, 2006. If the tribal gaming bonds are not sold, or generate less than \$1.2 billion, the General Fund will have to repay the remainder of the loan. The Administration proposes to amend current law to release the General Fund from any repayment obligation for the Traffic Congestion Relief Fund loan, and instead specify that repayment of the loan shall only be from tribal gaming revenue – either with annual revenue, or a bond backed by future revenue.

Public Transportation Account “Spillover” Revenue. For 2005-06, the Governor projects spillover revenue of \$216 million, and proposes to retain the entire amount in the General Fund. Prior to 1972, gasoline was exempt from the sales tax. Chapter 1400, Statutes of 1971, relinquished 0.25 percentage points of the state’s 4.00 percent sales tax to local governments to fund transportation development (primarily mass transit). To hold the General Fund harmless, the tax base was broadened to include gasoline. The legislation further provided a mechanism to assure that the General Fund would not benefit as a result of the broadened tax base – this “spillover” formula transfers any net General Fund revenue gain to the Public Transportation

Account. The spillover only occurs in years when gasoline prices are high relative to the prices of other goods. No spillover occurred during the period of 1994-95 through 2000-01; however, a spillover of \$11.3 million occurred in 2001-02.

- The 2003 Budget Act projected a spillover of \$87 million and associated trailer-bill legislation retained that amount in the General Fund (with any amount above \$87 million to be transferred to the Public Transportation Account).
- The 2004 Budget Act projected a spillover of \$140 million and trailer-bill legislation directs that amount to the Traffic Congestion Relief Fund as partial repayment of past loans to the General Fund (any excess spillover is retained by the General Fund).

Summary of Transportation Loans to the General Fund

Transportation Loans to the General Fund	Loan Amount (in thousands)	Current-law due date	Proposed due date
Traffic Congestion Relief Fund loans (made in 2001-02 and 2002-03)	\$1,383,000	June 30, 2006	By tribal gaming revenue - no GF obligation
2003-04 Propositions 42 loan	868,000	June 30, 2009	June 30, 2022
2004-05 Proposition 42 loan	1,243,000	June 30, 2008	June 30, 2022
2005-06 Proposition 42 loan (proposed)	1,310,000	n.a.	June 30, 2022
2006-07 Propositions 42 Loan (not currently proposed but allowable with the Governor's plan)	1,383,000	n.a.	June 30, 2022
Total	\$6,187,000		

Other Transportation Initiatives Proposed by the Governor

Eliminate the High Speed Rail Authority (HSRA). The Governor proposes to transfer the functions of the HSRA Board to the California Transportation Commission. The Authority Board has nine members (five members appointed by the Governor, two appointed by the Senate Committee on Rules, two appointed by the Speaker of the Assembly) who do not receive a salary. This proposal is one of the structural changes the Governor will submit to the Little Hoover Commission. The Governor did not propose legislation to remove the high-speed rail bond measure from the November 2006 ballot. Despite the elimination proposal, the budget augments funding for the high-speed rail project by \$2.7 million for the legal defense of the Environmental Impact Report, a route realignment study, and a business plan.

Eliminate the Transportation Advisory Committee. The Governor proposes to eliminate the Transportation Advisory Committee, which is a 16-member board created in 1973 to advise Caltrans on both the preparation of legislatively required reports and the designation of official scenic highways. Board members are appointed by the Legislature and do not receive a salary. The Administration contends that changes to the transportation planning process in 1997 (SB 45, Kopp), increased the level of local participation and partnership in transportation issues, such that the Advisory Committee is no longer needed. This proposal is one of the structural changes the Governor will submit to the Little Hoover Commission.

Transportation Management and Project Delivery Proposals. The Governor's Budget Summary indicates the Administration will propose a comprehensive package of management and project delivery proposals for the 2005-06 legislative session under the title, "GoCalifornia." These proposals will include increased authority for design-build contracting and public-private partnerships. The Administration anticipates releasing the proposals in the Spring, 2005.

2640 Special Transportation Programs

The Special Transportation Program provides funding to the State Controller for allocation to regional transportation planning agencies for mass transportation projects. Revenue comes from the sales tax on diesel fuel and a small portion of the sales tax on gasoline.

The Governor proposes funding of \$137.3 million for Special Transportation Programs – an increase of \$19.9 million (17 percent) over current-year funding. The increase in funding is primarily due to projections of higher diesel-fuel prices. Half of the projected Public Transportation Account "spillover" revenue would go this budget item under current law; however, the Administration proposes to retain all spillover revenue of \$216 million in the General Fund.

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The state highway system comprises less than 9 percent of the total roadway mileage in California but handles approximately 54 percent of the miles traveled. The department also has responsibilities for congestion relief, transportation technology, environmental and worker protection, and airport safety, land use and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

The Governor proposes total expenditures of \$8.0 billion (\$0 General Fund), a decrease of \$119 million (1.5 percent) from the current-year budget.

Expenditure by Program (dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Aeronautics	\$7,620	\$12,705	\$5,085	66.7
Highway Transportation	7,220,543	\$6,583,256	-637,287	-8.8
Mass Transportation	254,371	755,817	501,446	197.1
Transportation Planning	143,940	145,940	2,000	1.4
Administration	327,088	319,207	-7,881	-2.4
Equipment Program	147,685	165,046	17,361	11.8
State Mandated Local Programs	1	0	-1	-100.0
Total	\$8,101,248	\$7,981,971	-\$119,277	-1.5

Expenditure by Category (dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Personal Services	\$1,779,950	\$1,799,077	\$19,127	1.1
Operating Expenses and Equipment	1,383,402	\$1,425,629	42,227	3.1
Tort Payments	41,356	41,356	0	0.0
Debt Service (GARVEE bonds)	54,695	72,899	18,204	33.3
Local Assistance	1,980,369	1,429,380	-550,989	-27.8
Capital Outlay - Office Buildings	2,483	34,646	32,163	1,295.3
Capital Outlay - Transportation Projects	2,835,008	3,147,984	312,976	11.0
Unclassified	23,985	31,000	7,015	29.2
Total	\$8,101,248	\$7,981,971	-\$119,277	-1.5

Expenditure by Fund Type (dollars in thousands)	2004-05	2005-06	\$ Change	% Change
General Fund	\$0	\$0	\$0	0.0
Federal Trust Fund	2,921,927	\$2,402,637	-519,290	-17.8
Special Funds and Bond Funds	4,181,094	4,683,294	502,200	12.0
Reimbursements	998,227	896,040	-102,187	-10.2
Total	\$8,101,248	\$7,981,971	-\$119,277	-1.5

Major Budget Proposals

Highway Maintenance Funding. The Administration requests a permanent increase of 38.0 positions and \$45.8 million for highway infrastructure preservation and to implement the statewide culvert inspection and repair program. The 2004 Budget Act included a one-time augmentation of the same amount and approved budget trailer legislation (SB 1098) requiring Caltrans to provide the Legislature with a five-year maintenance plan by January 31, 2005. This yet-to-be-released report, should provide additional information on the appropriate level of maintenance funding.

Fuel and Insurance Cost Escalations. The Administration requests \$13.1 million in additional expenditure authority to fund various Caltrans programs for price increases for fuel and insurance. The increase for fuel is \$9.8 million (to \$26.5 million – a 37 percent increase) and the increase for insurance is \$3.2 million (to \$8.8 million – a 58 percent increase).

Storm-water Workload. The Administration requests a permanent increase of 45 positions and \$11.7 million for the maintenance of storm-water structural treatment best management practices. The Department's storm-water activities are driven by requirements of the federal Clean Water Act, requirements of the State Water Resources Control Board and various regional

boards, and legal settlements. This specific request relates to requirements of a recent legal settlement with the Natural Resources Defense Council. Additionally, the Administration requests a one-time augmentation of \$3.8 million for the purchase of fleet equipment.

Capital Outlay Support Program Service Contracts. The Administration requests a permanent increase of \$11.7 million (to \$23.6 million – a 98 percent increase) for non-project-specific contracts. Services include document reproduction, photography and satellite imagery, environmental studies, and training.

Oakland District Office Building Seismic Retrofit. The Administration requests \$34.5 million to fund the working drawings and construction of the Oakland district office building seismic retrofit.

2720 California Highway Patrol

The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state's highway system. The CHP also has responsibilities relating to vehicle theft prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for state employees and property.

The Governor proposes \$1.4 billion in total expenditures for the CHP, an increase of \$44 million (3 percent) from the current-year budget.

Major Budget Proposals

Capital Outlay. The Administration requests an augmentation of \$10.2 million in Motor Vehicle Account funds for the following facilities projects:

- Santa Fe Springs area office: Design and construct a new office at a cost of \$3.3 million.
- Los Angeles area office: Purchase the existing facility that the CHP currently leases for \$2.3 million.
- Williams area office: Construct a new office at a cost of \$4.3 million. The Williams area office was damaged by fire in 1999.

Reimbursement Authority. The Administration requests increased CHP reimbursement authority of \$480,000 and 5.5 additional positions to perform administrative functions for programs that transferred from the Technology, Trade, & Commerce Agency to the Business, Transportation & Housing Agency. These programs include the Film Commission, the Infrastructure Bank, the Small Business Loan Program, and the Office of Military Support.

2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of drivers' licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale, and disposal of vehicles.

The Governor proposes total expenditures of \$762 million, an increase of \$7 million (1 percent) from the current-year budget.

Major Budget Proposals

Capital Outlay. The Administration requests an augmentation of \$11.2 million in Motor Vehicle Account funds for asbestos abatement and office renovations for the third floor of the Sacramento DMV headquarters building.

Moving Costs. The Administration requests one-time funding of \$781,000, special funds, for moving costs related to three existing offices where the lessors do not intend to renew the DMV lease.